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RUEKJCS/JOINT STAFF WASHDC IMMEDIATE  
RUEHGV/USMISSION GENEVA IMMEDIATE 1615  
RUEHVEN/USMISSION USOSCE IMMEDIATE 3670  
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 3063  
RUEHNO/USMISSION USNATO BRUSSELS BE IMMEDIATE  
RUEHBS/USEU BRUSSELS IMMEDIATE  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 000007

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TAGS: [ECON](#) [ENRG](#) [SOCI](#) [PGOV](#) [KG](#)

SUBJECT: KYRGYZSTAN DRAMATICALLY INCREASES ENERGY PRICES

Classified By: CDA Larry L. Memmott, Reason 1.4 (b) and (d).

11. (C) Starting January 1, the Kyrgyz Government more than doubled the prices for electricity, central heating and hot water, and the prices are scheduled to rise again in July. Kyrgyzstan's state-owned electricity and central heating systems have been starved for revenue for several years due to artificially low prices, poor bill collection, and corruption. While the collection rate has increased dramatically due to better enforcement, revenue has still been insufficient to maintain and modernize the system. Low water levels at the largest hydropower plant have also necessitated blackouts again this winter. The government's decision to raise prices is broadly unpopular, but it remains to be seen over the coming months, and especially next winter when the steepest price increases will be felt, whether they have political implications.

Dramatic, And Unpopular, Price Increases  
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12. (U) Prime Minister Daniyar Usenov announced in November that the Government would significantly raise the prices for electricity, central heating and hot water starting January 1, 2010 in order to help cover the systems' costs. Electricity rates for individual consumers more than doubled, increasing from 1.6 cents/kilowatt hour (kWh) to 3.4 cents/kWh. Electricity prices will be raised again in July 2010 to 4.3 cents/kWh. Heating prices for consumers using the central heating system doubled on January 1 and will increase to five times the 2009 rate next winter. The cost of centrally supplied hot water increased more than four-fold on January 1, and will increase to ten times the 2009 rate in July 2010.

13. (C) The political opposition has strongly criticized the price hikes, arguing that many people will not be able to afford the new prices. Roza Otunbayeva told Charge recently that the energy price increase will be "our major issue" for 2010, and that she expected it would benefit the opposition substantially. When it announced the new rates, the government tried to blunt criticism by also announcing that it will provide cash payments to the poorest households to offset some of the price increases. Another criticism has been that the sharp price increases will lead to increased corruption as more consumers bribe meter readers to avoid

paying higher bills. Experts have also criticized the government's decision since in the current system individuals cannot regulate their personal consumption of heat, so the price increase may not lead to greater conservation of heating, and the steep increases in the central heating costs may drive some consumers to switch to electric heating, which will further increase electricity demand in the winter.

¶4. (C) The decision to dramatically increase the energy prices reportedly came from the top of the government. One independent local energy expert, Ularbek Mateev, told Emboff that the Ministry of Energy had proposed phasing in the price increases over a period of a few years, but that Prime Minister Usenov ordered that the increases be implemented over the next few months. There were also assertions in the media that the price increases came after pressure from the World Bank, which the World Bank later publicly denied. World Bank Country Manager Roger Robinson told Emboff that he had been surprised by the government's decision, and that he believes the government leadership decided that they were politically secure enough to weather any criticism in the short-run, and were betting that any discontent would subside as the government's economic policies pay off with higher economic growth and standards of living.

#### Cash Starved Electricity And Heating Systems

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¶5. (SBU) The Government has limited resources available to repair or replace the existing energy infrastructure because

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the system has not generated enough revenue to cover even the on-going operational costs. In the past the government kept electricity and heating prices artificially low for political reasons. Even with the low prices, a significant number of customers reportedly bribe electricity company employees rather than paying their bills. The Government has been successful in reducing the non-payment of the bills that are on the books (though due to corruption and theft, a portion of energy consumption is not recorded), with a collection rate of 96 percent, up from 83 percent in 2007. This has been reflected in a significant decrease in losses due to all sources (i.e., technical losses, theft, corruption and non-payment), which have fallen from roughly 75 percent in 2003 to approximately 28 percent in 2009.

¶6. (U) Much of Kyrgyzstan's existing electricity and heating infrastructure was built during the time of the Soviet Union, and inadequate funding for maintenance has led to high energy losses and frequent equipment breakdowns. The latest sign of problems with Kyrgyzstan's aging energy infrastructure was the failure on December 7 of two of the four turbines at the Toktogul hydropower plant, the largest power plant in the country with a capacity of 1,200 megawatts that started operation in 1974. The turbines were repaired and back in operation by December 12. Another example of the old and poorly maintained energy infrastructure is Bishkek's combined heat and power plant, which provides most of Bishkek's heat during the winter and a portion of the city's electricity, which began operation in 1961. According to the World Bank, the power plant began the winter season this year with only one third of its boilers operational.

#### Blackouts This Winter Fewer Than Last Year

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¶7. (C) While the price of electricity is increasing, the supply remains unreliable. During the winter months Kyrgyzstan has not been able to meet domestic electricity demand because imported electricity is expensive and the water level at the reservoir for the Toktogul hydropower plant is not high enough to allow the plant to run at full capacity. The Government has been rationing electricity this winter by instituting rolling blackouts for much of the country from midnight to 5:00 am. In the south of the

country, electricity is often out several hours during the day as well. Electricity consumption in the cities of Bishkek and Osh in November and December exceeded their targets, meaning that the distribution companies have had to increase blackouts in rural areas to meet their overall consumption targets.

18. (U) Electricity rationing this winter has been less severe than last winter as the water level of the Toktogul reservoir is currently higher than last winter. Thus far the winter has been milder than average, perhaps relieving pressure on the system, though the decreased precipitation may result in future difficulties. The reservoir's low water level in 2008 prompted widespread speculation that there had been unregistered export of electricity, since the weather had not been significantly dryer than in previous years. Overall electricity consumption in the autumn/winter period in 2008-2009 decreased by 28 percent compared to the same period in 2007-2008, with most of that decrease due to intentional blackouts.

COMMENT: Biting The Bullet - Risky But Necessary?  
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19. (C) The Kyrgyz Government is taking a calculated risk by increasing energy prices so quickly. If the proceeds are invested in upgrading energy infrastructure (and we will report on plans for doing so septel), the increase is economically justified. However, the impact on poverty will be significant, as many poor households will have a difficult time managing the steep price increases, especially as higher

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energy prices will also fuel a higher overall inflation rate as businesses pass on their higher costs to consumers. We do not believe that the opposition will make much progress in efforts to turn discontent about price increases into political channels. If the government did feel some heat from the public on this issue, President Bakiyev always has the option of canceling or scaling back some of the future increase.

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